

# KEY ECONOMIC INDICATORS

## UPDATE



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Economic Data Pertaining to  
the U.S. and Michigan Economies  
for Members of the Michigan Legislature

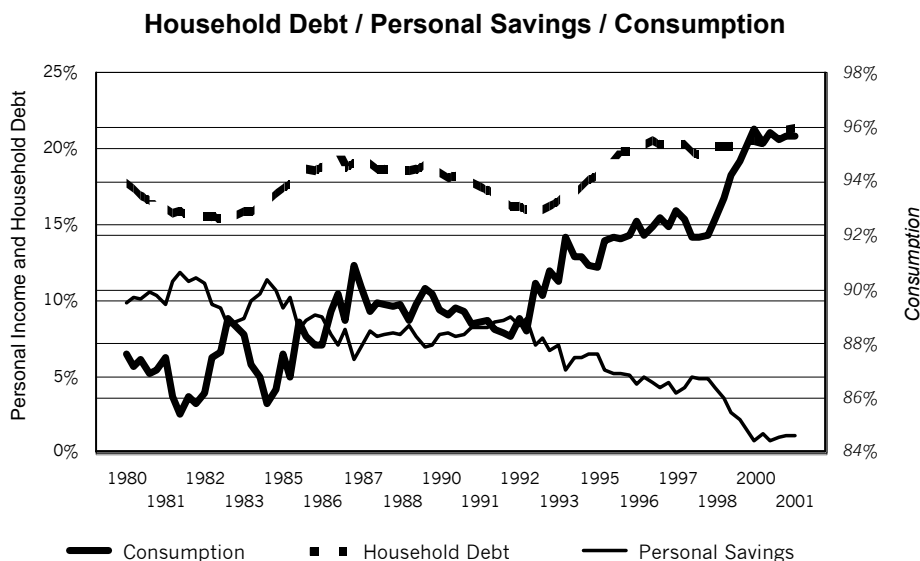
BI-MONTHLY PUBLICATION  
July/August 2001  
Volume 7, No. 3

### In The News . . .

**Please Note:** Information in this report is based on data as of August 2001; it does not include the effects of recent events. Reaction to the bombing of the World Trade Center and Pentagon will produce some significant, short-term negative changes. The next edition of this report will look at the economic effects of the September 11 events.

Consumer behavior during the current U.S. economic slowdown contrasts with behavior in past periods of economic weakness. Traditionally, during economic downturns or recessions, consumers become cautious about employment and income. As a result, the personal savings rate increases and household debt decreases, thus slowing the growth rate of consumption.

Household debt (total revolving and non-revolving credit outstanding as a percent of disposable income) averaged 17.5% from 1982 through 1994. Between 1995 and June 2001, the household debt rate averaged 20.1%. Between 1982 and 1994, the personal savings rate averaged 8.3%; from 1998 until 2000, it dropped dramatically until leveling off at about 1% throughout 2000 and 2001. Consumption as a percent of disposable income averaged 88.8% between 1982 and 1994, and more recently surpassed 95%.



Two key factors contributing to the relatively high consumption levels are low interest rates (costs of borrowing) and gains in net wealth during the mid-to-late 1990s. Recent labor market weaknesses combined with a significantly lower stock market could dampen consumption.

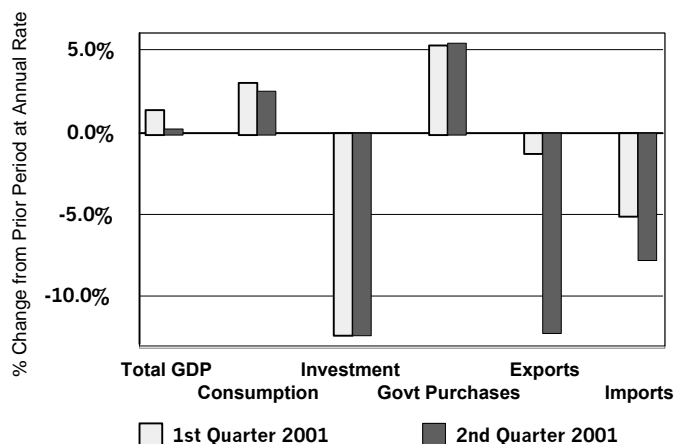
# The U.S. Economy . . .

## Gross Domestic Product

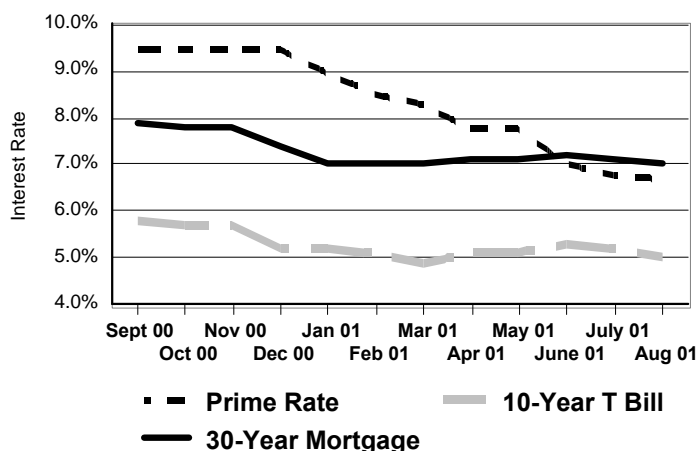
Gross domestic product (GDP) is the standard measure of the performance of the national economy. It has four main components: personal consumption expenditures, gross private domestic investment, government consumption expenditures and gross investment, and net exports (exports less imports) of goods and services. Real GDP grew at a seasonally adjusted annual rate of 0.2% during the second quarter of 2001 after posting an increase of 1.3% during the first quarter of 2001.<sup>1</sup>

Personal consumption expenditures, which account for almost two-thirds of GDP, grew at a 2.5% rate during the second quarter of 2001, slightly slower than the 3.0% growth from first quarter 2001. Gross private domestic investment declined 12.3% in both the first and second quarters of 2001. and again declined 12.3% in the second quarter of 2001. After falling at a 1.2% rate in first quarter 2001, exports declined by 12.2% in the second quarter.

Real GDP Performance



Selected Interest Rates



## Key Interest Rates

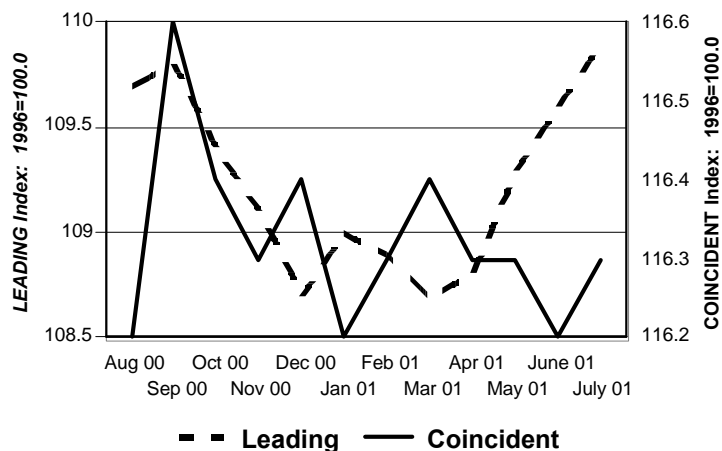
Interest rates are based on Federal Reserve policy, duration (short-, medium-, or long-term), and perceived risk. Short-term interest rates, as measured by the prime rate, declined steadily in response to the Fed's rate cuts. Medium-term interest rates, as proxied by the rate on ten-year Treasury securities, were slightly lower in August than in recent months. Long-term rates, as measured by the 30-year conventional mortgage rate, rose slightly in June—then fell in both July and August.

## Leading and Coincident Economic Indicators

The composite index of leading economic

indicators, which is used to predict the future path of the economy, continued to rise—with a 0.3% increase in June and another 0.3% in July—and has experienced a net gain of 1.0% over the past six months. In contrast, the index of coincident economic indicators, which is used as a gauge of current economic conditions, remained relatively steady in July and is at the same level as it was six months ago. The increase in the leading index suggests that the pace of the economy should begin to pick up over the coming months.

Leading and Coincident Indicators



<sup>1</sup> Data on macroeconomic variables from the Survey of Current Business, U.S. Department of Commerce, Bureau of Economic Analysis. Interest rate data from the Federal Reserve Board. Data on the leading and coincident indexes from Business Cycle Indicators, The Conference Board.

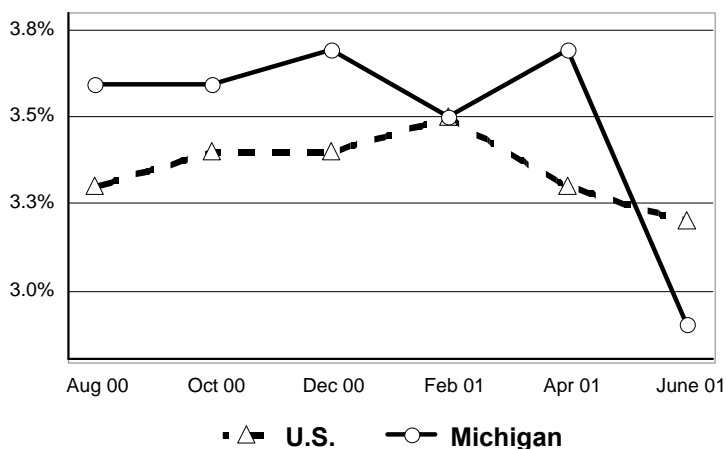
# U.S. and Michigan Comparisons . . .

## Inflation

Inflation measures the change in the general level of prices over time. One frequently-used gauge of inflation is the consumer price index (CPI), or for Michigan, the Detroit-Ann Arbor CPI (D-CPI). In June 2001, the CPI posted a 3.2% increase from a year ago while the June 2001 D-CPI advanced at a 2.9% pace, and is only the second time since April 2000 that D-CPI dropped below the US CPI.<sup>2</sup>

The inflation rate is influenced by a number of factors. Among the most significant are the producer price index (PPI), the employment cost indexes for total compensation and wages and salaries, and labor productivity.

U.S. and Michigan Inflation Rates

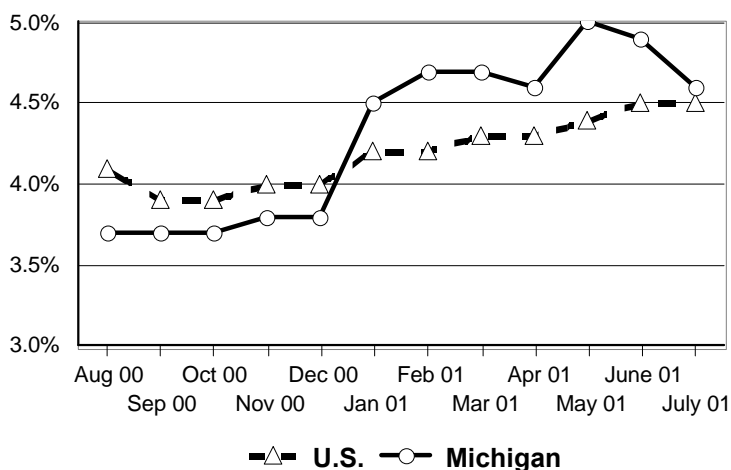


## Economic Measures Key to Inflation

Economic Measure	Time Period	Current Period	% Change from Previous Period at Annual Rate	% Change from Year Ago
Producer Price Index	August 2001	141.1	3.5%	2.1%
Total Compensation Index	2nd Quarter, 2001	154.5	4.0%	4.0%
Wage and Salary Index	2nd Quarter, 2001	150.9	4.1%	3.8%
Labor Productivity Index	2nd Quarter, 2001	118.0	2.1%	1.5%

## Unemployment

U.S. and Michigan Unemployment Rates



Between March 1995 and December 2000, the unemployment rate in Michigan remained below the U.S. level. Beginning in January 2001, Michigan's unemployment rate climbed above the U.S. rate, and has remained higher during the first seven months of 2001. In July, the US unemployment rate was 4.5% while Michigan's unemployment rate fell to 4.6%.

## Employment

In July, total U.S. employment stood at just under 135.5 million workers, which represents a 0.4% increase relative to July 2000. For Michigan, total employment in July 2001 was just under five million workers, which translates to a 0.6% decline when compared to July 2000.

<sup>2</sup> Both consumer price indexes, the producer price index, both employment cost indexes, the labor productivity index, and all labor force data from the U.S. Bureau of Labor Statistics.

# The Michigan Economy . . .

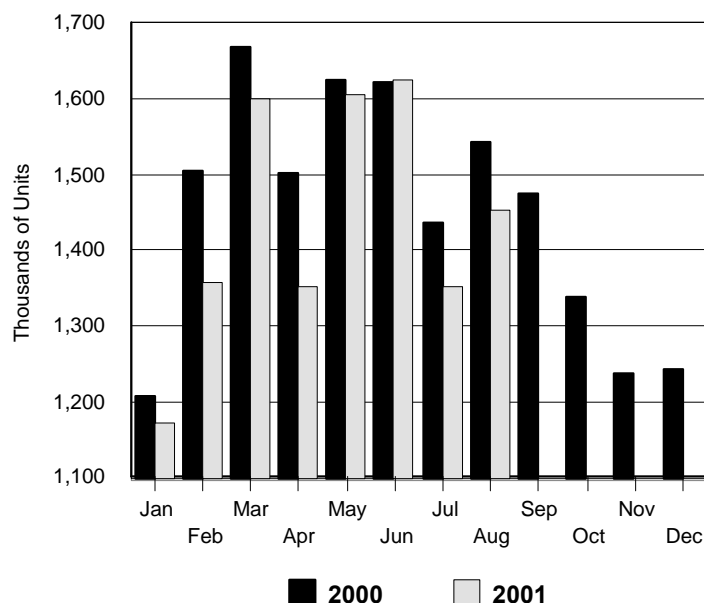
Total wage and salary employment in July fell by 0.2% relative to one year ago. The two largest industries—trade and services—saw modest employment increases, while the manufacturing sector, especially in durable goods experienced significant employment declines. Average weekly earnings in all industries listed except for transportation and public utilities and trade increased relative to a year ago.

## Michigan Labor Market Data

Industry Classification	Wage and Salary Employment (in Thousands)		Average Weekly Earnings (in Dollars)	
	July 2001	Percent Change from Prior Year	July 2001	Percent Change from Prior Year
Mining and Construction	241.6	0.7%	\$909.77	0.7%
Manufacturing	928.1	-4.4%	\$781.10	1.5%
Durable Goods	699.6	-5.4%	\$828.63	1.1%
Nondurable Goods	228.5	-1.2%	\$626.94	3.8%
Transportation and Public Utilities	181.0	0.0%	\$674.52	-2.6%
Wholesale and Retail Trade	1,099.1	0.4%	\$417.90	-0.1%
Finance, Insurance, and Real Estate	211.3	2.1%	\$548.14	5.5%
Services	1,339.1	0.9%	\$506.20	5.1%
Total Government	636.8	2.2%	N/A	N/A
<b>TOTAL WAGE AND SALARY EMPLOYMENT</b>	<b>4,637.0</b>	<b>-0.2%</b>	<b>N/A</b>	<b>N/A</b>

## U.S.

### U.S. Sales of Cars and Light Trucks



### Motor Vehicle Sales

U.S. sales of cars and light trucks for the first eight months of 2001 measured just over 11.5 million units, which represents a 4.9% decline from the more than 12.1 million units purchased during the same period last year. Even though sales of light vehicles in August were 5.9% below the year-ago level, the 1.5 million vehicles sold represents an 7.5% increase relative to July.

### Michigan

#### Motor Vehicle Production

Michigan light vehicle production in July stood at 132,924 units, which represents a 4.4% increase relative to July 2000. Compared with one year ago, auto production rose by 14.9% while light truck production dipped by 10.1%. Through the first seven months of 2001, total light vehicle production is 16.0% lower than during the same period in 2000.<sup>3</sup>

<sup>3</sup> Michigan employment and wage data from the U.S. Bureau of Labor Statistics. Automotive figures are published in Automotive News; calculations by HFA. Michigan auto production data from the Office of Revenue and Tax Analysis, Michigan Department of Treasury.